

**A Review of Suggestions Received by the Community Vitality Center (CVC)
Regarding the Iowa Small Business Loan Program**

Presented to the Iowa Senate Economic Growth Committee

By

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**Department of Economics Staff Paper
Iowa State University
January 27, 2011**

During the past 6 months a number of comments have been received regarding the Iowa Small Business Loan Program from potential clients, Iowa Small Business Development Centers, Iowa MicroLoan, IDED, and other stakeholders. Presentation of these comments and suggestions are potentially informative to policymakers. Since the various objectives of the program may involve tradeoffs, the following comments are provided as potential considerations for policymakers and not as recommendations.

I. Program Access and Administrative Efficiency

1. **Eligibility Screening & Business Plan Review Assistance:** ISB Loan Applicants appear to be clustered around certain SBDCs that have invested time and resources to become familiar with the ISB requirements to the benefit their local clientele. (See Map.) Applicants from other SBDC areas have not been as forthcoming. While some gaps in application distribution may be due to competitive rates and terms from local revolving loan funds, others may be due to lack of awareness or lack of priority placed on the ISB program.
 - a. Ask and encourage Extension Specialists, Main Street Directors, and Nonprofit Entrepreneurial Assistance Providers with appropriate credentials to participate as authorized entities for conducting eligibility survey and Business Plan Review process.
 - b. Ask Banks and Credit Unions to participate as authorized entities for conducting eligibility survey and Business Plan Review process.
 - c. Ask Revolving Loan Funds to participate as authorized entities for conducting eligibility survey and Business Plan Review process.

Consequence/Tradeoff: SBDCs that have devoted time to assisting ISB Loan Applicants have generally learned what the Iowa MicroLoan Review Committee is looking for to satisfy the Administrative Rules. As a result, recommendations for loan denials have been relatively low since the initial learning period. A similar expectation may occur by adding new groups.

2. **Local Food Preference for Remaining Funds.** Encourage ISB Loan Program collaborators to involve Local Food and Farm State Coordinator in working with the Leopold Center, ISU Extension, Local Food Coordinators and other support agencies and networks in identifying and assisting local food producers, small food businesses and entrepreneurs in accessing Iowa Small Business Loans (Iowa Local Food and Farm Plan, Leopold Center Report, Jan 2011).

Consequence/Tradeoff: Providing preferential targeting may narrow the focus but create interest in organizing financial assistance networks for an emerging priority area of entrepreneurial development. To date, ISB applications have come from a wide range of sectors, therefore some sectors that desire access, may be excluded with targeting.

3. **Marketing:** Add funds to market program for creating more awareness.

Consequence/Tradeoff: Additional Marketing funds would be useful to build awareness if the goal is for creating an ongoing program. The current program end date is March 31, 2011. If the program end date is extended, marketing funds would be useful in creating awareness about the program continuation. Iowa MicroLoan staff spent approximately 1 day per week on presentations to groups across the state during the first five months of the ISB program.

4. **Client Status:** Some SBDC comments have indicated interest in an online applicant tracking system, so that client knows status of where application is in the system.

Consequence/Tradeoff: In the current system clients may call or email the Coordinator to find the current status of the application as the tracking system is made more complex it requires additional staff time to build/maintain the system.

II. Eligibility

5. **Residency:** Allow Iowa small businesses owned by residents of contiguous counties in neighboring states to be eligible for ISB Loan Program. Of Iowa's 99 counties, 36 counties have at least one border located contiguous to another state.

Consequence/Tradeoff: If a business with an out of state owner fails, then the collection process potentially becomes more difficult and costly.

6. **Working Capital and Salaries:** Allow ISB loan requests for working capital, salaries as long as other criteria are met, such as sufficient collateral coverage, cash flow, and credit history, and contracts. The current prohibition on working capital and salaries eliminates many businesses from eligibility. A software or service-oriented company is not eligible, even though they may have a contract.

SBDCs comments indicated that many businesses inquiring about the ISB Loan program were seeking working capital. These businesses were turned away.

Consequence/Tradeoff: On one hand, positive cash flow after debt service and 100 percent collateral coverage are still required as ISB Loan approval criteria. However, working capital uses are much more difficult track. Allowing a portion of the ISB loan for working capital purposes may increase review time and increase odds that funds are used for other ineligible purposes. A comment from one SBDC suggested allowing a maximum percent of the total loan request to be used for working capital/salary purposes. However, those who administer the program suggest significant difficulty and accountability issues and extra time involved in any efforts at verification which would increase risk exposure.

7. **Loan Term:** Increase allowable term for ISB loans to reduce double payments in co-financing ISB and local bank loans. This would increase odds that co-financed loans will cash flow for borrower with payments to local lender and ISB program.

Consequence/Tradeoff: While a long term may be useful for equipment that has a longer useful life, other equipment that is deployed for modernization and energy improvements, and special purpose vehicles typically are written off during a shorter period. Financially vulnerable borrowers are more able to postpone repositioning, however most of the loan risk shifts to the loan with the longer term. This creates much greater risk of losses for the ISB Loan program.

III. Capital Utilization Opportunities

8. **Continue and expand leverage with Co-Financing for local banks, credit unions, and revolving loan funds.** The biggest surprise in the ISB Loan program has been the interest in co-financing by local financial institutions. The co-financing has leveraged local capital by doubling the amount capital invested in ISB Loan client businesses across the state. Banks appear to be interested in part because financial institution standards and bank examiners have raised underwriting criteria because of the fallout from the housing and credit crises. This impedes entrepreneurs at a time when policymakers may want to encourage recovery and jobs. The newly formed “E-Team” collaboration initiated by the IDED LEAN process in November brought together 20 entrepreneurial support entities interested in collaboration for the benefit of Iowa entrepreneurs. It has initiated a Small Business Capital Matching and Leveraging Task Force to discuss ways to maximize and improve utilization of Iowa’s Small Business Capital Resources. For example, surveys in recent years have indicated that local revolving loan funds have may have balances that could be put to use in matching and leveraging scarce entrepreneurial capital resources through networking and collaboration. An informal survey of local loan sources may identify participation barriers and collaboration opportunities that would help to increase small business entrepreneurial capital utilization. The Task Force is headed by myself, Teresa

Bomhoff, USDA Rural Development, and Amy Kuhlers, UNI-Regional Business Center/MyEntrenet

- 9. Leverage ISB Fund with emerging entrepreneurial technical assistance networks.** Connecting ISB Loans with local technical assistance networks such as Main Street Development, Regional Local Food Network initiatives, and Energy Efficiency Audit and Rehab Networks are examples.
- 10. Leverage some ISB Funds as Match for Federal Microloan and Foundation Grants.** IFMCV is in a unique position to leverage \$3 to \$7 of Federal Microloan Programs for each \$1 of nonfederal capital match. Such leverage could be attained with a portion of ISB funds, if added flexibility in the use of the funds were authorized for match and interest rate buy-down program to achieve the ISB interest rates. In addition, IFMCV will be requesting a sustainability Grant upon completion of the current 3 year \$500,000 demonstration grant with NWAf and the Community Foundation of Greater Des Moines. The grant request will help to assure that Iowa MicroLoan operational capacity continues as a second look microfinance entity for small business entrepreneurs in accordance to the 10 year business plan in which the nonprofit becomes sustainable in year 8.
- 11. Leverage some ISB Funds as Match for Federal CDFI Funds for Small Business Equity Financing Tools through Iowa Community Capital (ICC).** ICC is an Iowa 501(c)(3) nonprofit that is a certified Community Development Financial Institution(CDFI) with the U.S. Department of Treasury and has applied to the CDFI fund for a Healthy Food Financing Pilot Equity Fund project for 10 SE Iowa counties with high unemployment, high poverty, and low food access. Endorsement of larger regional innovation grants can provide access to federal funds for emerging networks of small business entrepreneurs.

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